

Title 25 OFFICE OF THE STATE TREASURER

Subtitle 03 TREASURY MANAGEMENT

25.03.03. Local Government Investment Guidelines and Reporting Requirements

Authority: Local Government Article, Title 17, Subtitle 2; State Finance and Procurement Article, § 6-222, Annotated Code of Maryland

.01 Purpose.

This chapter requires local government units to adopt policies to be followed when investing public [funds, to submit] *money and submitting* the adopted policies to the State Treasurer for [acceptance, and certain local government units to submit periodic reports on investment activities to the State Treasurer] *acceptance*.

.02 Definitions.

A. (text unchanged)

B. (1) (text unchanged)

(2) "Adopted policy" means a local government investment policy which has been properly adopted by the local government unit in accordance with the requirements of [both] local law, [and] Regulation .05 of this chapter, *and Chapter 4 of this subtitle*.

(3) - (5) (text unchanged)

[(6)] (6) "Certificate of deposit" means an interest-bearing negotiable instrument of fixed maturity issued by a commercial bank.

(7) "Chief Executive" has the meaning stated in Article 95, §22F, Annotated Code of Maryland.]

[(8)] (6) "Commercial paper" means an unsecured promissory note with a fixed maturity of 270 days or less.

[(9)] (7) "Community college" [has the meaning stated in Article 95, §22F, Annotated Code of Maryland] *means a community college other than the Baltimore City Community College and a regional community college established under Title 16, Subtitle 2 of the Education Article.*

[(10)] "Direct federal obligation" means a security issued by the United States Treasury, the principal and interest of which are guaranteed by the full faith and credit of the United States.]

(8) "*Financial officer*" has the meaning stated in § 17-201 of the Local Government Article, Annotated Code of Maryland.

[(11)] "Federal agency obligation" means securities issued by entities that are United States government agencies or by a federal instrumentality created by Congress to advance federal policy through the issuance of securities, such as the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank, and the Student Loan Marketing Association.]

[(12)] (9) "GFOA" means the Government Finance Officers Association of the United States and Canada.

[(13)] (10) "Governing body" has the meaning stated in [Article 95, §22F,] § 1-101 of the Local Government Article, Annotated Code of Maryland.

[(14) "Investment manager" has the meaning stated in Article 95, §22F, Annotated Code of Maryland.

(15) "Local government investment pool" has the meaning stated in Article 95, §22G, Annotated Code of Maryland.

(16)] (11) "Local government unit" [has the meaning stated in Article 95, §22F, Annotated Code of Maryland] *means a county, a municipality, a community college, the Washington Suburban Sanitary Commission, a public corporation authorized to issue debt, and an authority of the State authorized to issue debt.*

[(17)] (12) "Marked to market" means the price at which a security is trading.

[(18)] (13) "Money market mutual [funds] *fund*" means a mutual fund registered with the Securities and Exchange Commission under the Investment Company Act of 1940, 15 U.S.C. [§ 80a-1] § *80a-1 et seq.*, as amended, and operated in accordance with Rule 2A-7 promulgated under the Investment Company Act of 1940, 17 CFR §270.2A-7, as amended.

[(19) "Municipal securities" means debt issued by state and local governments and their agencies.

(20) "Municipal Treasurer's Association" means the Municipal Treasurers' Association of the United States and Canada.

(21) "Net asset value" means the bid price of a mutual fund share.

(22)] (14) "Public [funds"] *money*" has the meaning stated in [Article 95, §22F, Annotated Code of Maryland] *Chapter 4 of this subtitle.*

[(23)] (15) "Repurchase agreement" means an investment in which an investor buys a security from a broker for a specified period at an agreed rate of interest and the broker agrees to repurchase the security at a specific time for the original purchase price plus the interest accrued.

[(24)"Reverse repurchase agreement" means a method of borrowing using a security as collateral for a loan when the owner sells the security for a stated term with an agreement to repurchase the security at the sales price and an agreed-upon interest rate.

(25)] (16) "State Treasurer" means the Treasurer of Maryland.

.03 General Requirements for Adoption of Local Government Investment Policy.

A. (text unchanged)

(1) (text unchanged)

(a) State Finance and Procurement Article, §6-222, Annotated Code of [Maryland, and] *Maryland;*

(b) [Article 95, §22F] §§ *17-201 et seq. of the Local Government Article*, Annotated Code of Maryland; and

(c) *Chapter 4 of this subtitle; and.*

(2) Meets or exceeds standards published by nationally recognized financial management organizations recognized by the State Treasurer.

B. The State Treasurer recognizes the standards published by the following nationally recognized financial management organizations:

(1) GFOA; and

(2) [Municipal Treasurer's Association] *Association of Public Treasurers of the United States and Canada.*

C. (text unchanged)

.04 State Law Requirements for Adoption of Local Government Investment Policy.

A. (text unchanged)

(1) (text unchanged)

(a) State Finance and Procurement Article, [§ 6-222(a)] § 6-222(b), Annotated Code of Maryland, or] *Maryland*;

(b) [Article 95, 22-----22N] §§ 17-201 *et seq. of the Local Government Article*, Annotated Code of Maryland; *and*

(c) *Chapter 4 of this subtitle*;

(2) Require that investments made by local government units comply with the standards of [State Finance and Procurement Article, § [6-222(d)] *Chapter 4 of this subtitle*;

(3) (text unchanged)

(4) Require that the local government unit's [investment manager] *financial officer* not invest public [moneys] *money* of the local government unit in a manner inconsistent with its adopted policy.

B. (text unchanged)

[C. In addition to A and B of this regulation, the adopted policy of a board of education or a board of library trustees shall comply with the provisions of the adopted policy for the county in which the board of education or board of library trustees is located.]

.05 Adoption of Local Government Investment Policy and Submission for Acceptance.

A. [By September 1, 1995, the] *The* governing body of each local government unit shall adopt by resolution a written local government investment policy that:

(1) (text unchanged)

(2) Satisfies the requirements of Regulations .03 and .04 of this chapter *and Chapter 4 of this subtitle*; *and*

(3) (text unchanged)

B. (text unchanged)

.06 Check by State Treasurer of Local Government Investment Policy.

A. Upon receipt, the State Treasurer shall have each adopted policy checked for compliance with this chapter *and Chapter 4 of this subtitle*, and shall either:

(1)–(2) (text unchanged)

B. (text unchanged)

.09 Enforcement.

[A.] The State Treasurer shall notify a local government unit to seek compliance if the:

(1) Local government unit has not sent the State Treasurer an adopted policy in accordance with Regulation .05B of this chapter; [or]

(2) State Treasurer determines that the adopted policy is not an accepted policy in accordance with Regulation .06A of this chapter[.]; *or*

(3) *State Treasurer determines that an accepted policy is no longer in compliance with the provisions of:*

(a) *State Finance and Procurement Article, §6-222, Annotated Code of Maryland*;

(b) §§ 17-201 *et seq. of the Local Government Article, Annotated Code of Maryland*; *or*

(c) *Chapter 4 of this subtitle*;

[B. The State Treasurer periodically shall send a written list of the local government units which have failed to comply with this chapter to the Joint Committee on the Management of Public Funds, which may take further action in accordance with Article 95, §22F, Annotated Code of Maryland.]

25.03.04. Policy Regarding the Investment of Public Money

Authority: State Finance and Procurement Article, § 6-222, Annotated Code of Maryland

.01 Purpose.

The purpose of this Policy is to ensure that public money is invested in a manner that will:

- A. Provide the highest investment return with the maximum security while meeting the anticipated daily cash flow requirements of the State and each local government unit;*
- B. Conform to all State laws governing the investment of public money; and*
- C. Set requirements and thresholds for the investments of public money by the State and each local government unit.*

.02 Definitions.

A. "Financial officer" means:

(1) with respect to the State, the State's Chief Investment Officer and any other person authorized by the State Treasurer to invest unexpended or surplus money over which the State Treasurer has custody;

(2) with respect to a local government unit, the State Treasurer or other financial officer of a local government unit who is responsible for the investment of public money.

B. "Local government unit" means a county, a municipality, a community college, the Washington Suburban Sanitary Commission, a public corporation authorized to issue debt, and an authority of the State authorized to issue debt.

C. "Public money":

(1) with respect to the State, means unexpended or surplus money over which the State Treasurer has custody; and

(2) with respect to a local government unit, has the meaning stated in § 17-201 of the Local Government Article, Annotated Code of Maryland.

C. "State Treasurer" means the Treasurer of Maryland.

.03. Requirements for Financial Officers

A financial officer shall make investments:

(1) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

(2) in a manner designed to reasonably match anticipated cash flow needs so that sufficient funds are available to pay obligations upon proper presentation for payment;

(3) so that a reasonable amount of cash or cash equivalents is available for unanticipated cash needs;

(4) with due regard for minimizing risk while maximizing return;

(5) using competitive purchasing practices except when impractical;

(6) in accordance with a written investment policy;

(7) so that the securities and collateral may continue to be priced on a marked to market

basis; and

(8) to avoid the enhancement of the personal financial position of the financial officer or any employee of the State Treasurer or local government unit who has responsibilities for such investments.

.04 Diversification

A. Subject to the requirements in Section B of this regulation, public money may be invested in the securities authorized by §6-222(b) of the State Finance and Procurement Article.

B. A financial officer may invest public money in a given type of security not more than the following percentage of the overall investment portfolio over which the financial officer manages:

(1) for an obligation for which the United States has pledged its faith and credit for the payment of the principal and interest, 100%;

(2) for an obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, 100% with no more than 33% dedicated to a single issuer;

(3) for an obligation issued and unconditionally guaranteed by a supranational issuer denominated in United States dollars and eligible to be sold in the United States, 40%;

(4) for a repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer, 75% with no more than 30% of the total amount held by one counterparty;

(5) for bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission or the State Treasurer, 20%;

(6) for securities permitted by §6-222(b)(vi) of the State Finance and Procurement Article, 25%;

(7) for commercial paper that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organizations as designated by the United States Securities and Exchange Commission, 35% with no more than 10% from a single issuer;

(8) for money market mutual funds meeting the requirements of §6-222(b)(viii) of the State Finance and Procurement Article, 50%; and

(9) for any investment portfolio created under the Maryland Local Government Investment Pool, 100%, subject to the limit of the General Fund allocation.

.05 Credit Rating

A. A financial officer shall prioritize investing in securities of high credit quality and marketability.

B. All securities shall be reviewed using the numeric and letter grading of the Securities and Exchange Commission's Nationally Recognized Statistical Rating Organizations.

C. Securities permitted by §6-222(b)(1)(v) of the State Finance and Procurement Article shall have:

(1) For maturities of one year or less, at least two A-1/P1/F-1 ratings by S&P Global Ratings, Moody's Investors Service, Inc., or Fitch Ratings, respectively; and

(2) For maturities of more than one year but less than five years, at least two AA/Aa/AA ratings by S&P Global Ratings, Moody's Investors Service, Inc., or Fitch Ratings, respectively.

D. Securities permitted by §6-222(b)(1)(vi) of the State Finance and Procurement Article shall have at least two A-/A3/A- ratings Nationally Recognized Statistical Rating Organizations, one of which must be either S&P Global Ratings, Moody's Investors Service, Inc., or Fitch Ratings.

E. Commercial paper shall have at least two A-1/P-1/F-1 ratings by S&P Global Ratings, Moody's Investors Service, or Fitch Ratings, respectively.

F. If a catastrophic event occurs that could dramatically shift credit ratings on any of the assets in the portfolio, the State Treasurer may:

(1) make investment decisions inconsistent with this chapter that are in the best interest of the State; and

(2) approve in writing a request from a local government unit to make investment decisions inconsistent with this chapter.

.06 Additional Requirements

A. The State Treasurer may adopt additional requirements for the state investment portfolio and for the investment policies of local government units.

B. A local government unit shall comply with any additional requirements adopted under this regulation.

C. The State Treasurer shall post on the State Treasurer's Office website and notify local government units of any additional requirements implemented in accordance with this regulation.